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Weekly Contributions
Latin America Branch, ORE, CIA
19 July 1949

B/IA calls particular attention this week to reported disaffection in the Venezuelan Army (p. 2).

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CURRENT DEVELOPMENTS

CENTRAL DIVISION: Reported discontent among younger Venezuelan Army officers may mean eventual shift of power in the Venezuelan junta (p. 2). Ecuador's government has suppressed an opposition group (p. 3). The pending Brazilian-British trade agreement probably will be for a shorter term than the recently concluded Anglo-Argentine agreement (p. 3).

SOUTHERN DIVISION: In Bolivia, the formation of a coalition cabinet is expected to strengthen the government (p. 3).

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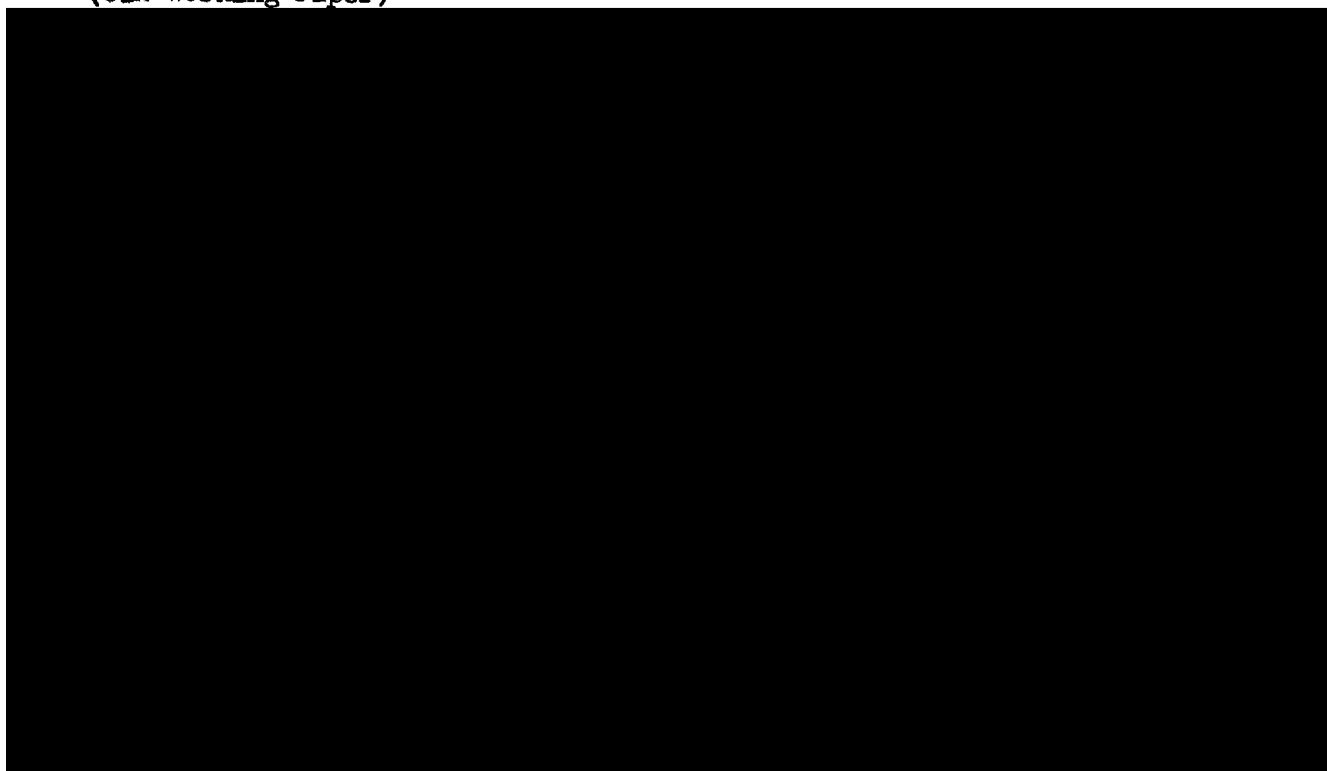
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25X6A (CIA Working Paper)

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✓ 2. VENEZUELA: ^{25X1X4} ~~Discontent Among the Younger Army Officers~~

there is widespread discontent among the younger officers of the Venezuelan Army, and that causes of dissatisfaction are: (1) the junior officers, few of whom have been promoted, feel they have not benefited from the November 1948 coup; (2) these officers dislike and fear Delgado Chalbaud, who they believe is still plotting with Acción Democrática leaders; (3) they disapprove of the failure to bring AD leaders to trial; (4) they accuse the higher officers of graft, political maneuvering, and failure to modernize the armed forces; (5) they are hostile towards the former Medinista and Lopicista officials who have returned to office, and deplore the renewed tendency towards regionalism.

There is no present evidence that this group, united though it may be in its grievances, has either definite leadership or a positive program. Various political parties may seek to exploit this discontent; their chances of success, however, are not believed to be great at this time. It is more likely that this horizontal cleavage in the army may strengthen Pérez' hand against

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such pro-Delgado Washington plotting as was reported last week (see B/LA Wkly, 12 Jul 49), and that in time Pérez Jiménez may capitalize on the younger officers' hostility towards Delgado Chalbaud to oust the latter from the junta.

3. ECUADOR: One of the anti-Plaza movements, that led by Colonel Carlos Mancheno, appears to be losing ground. The arrest of ten of Mancheno's followers (army officers and politicians) in Loja on 4 July 1949 for subversive activities caused no reaction 25X1X4
embarrassing to the government in other parts of Ecuador. [REDACTED]

(a) major army units are still loyal to the President; (b) important elements in the Liberal and Socialist parties (which recently joined in a public announcement of their opposition to the Plaza government) are not willing to follow Mancheno in the implementation of such opposition; and (c) the Mancheno movement is virtually without funds.

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4. BRAZIL: [REDACTED] an Anglo-Brazilian trade agreement, similar to that of 1943, will soon be signed. The agreement will be for one year and will list the amounts of specified commodities to be exchanged. B/LA estimates that such a one-year agreement will be signed as soon as Brazilian export surpluses become more fully known so that the commodity list can be properly drawn up. It appears that the Brazilian export surpluses are less than originally anticipated, and if such is the case there will have to be a readjustment to a lower trade level. Because of Brazil's close economic and political ties to the US, the opposition in the US to the Anglo-Argentine agreement, and Britain's uncertain economic condition, it appears unlikely that Brazil at this time will negotiate a long-term bilateral trade agreement such as the recently concluded Anglo-Argentine agreement.

5. BOLIVIA: The government may be strengthened by the expected formation of a coalition cabinet. The present cabinet, formed in May when President Hertzog left office, has included only PUSR members and two independents. The combined Liberal and Social Democrats, third strongest political group, refused to enter this cabinet, while the army, which is assuming an increasingly important political role, has been obdurate in opposing the entry of either MNR or PIR into the government. If acting President Urriolagoitia is successful in getting all democratic parties, except the PIR,

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to enter his government, he will broaden its political base so that it can better withstand the unceasing opposition of the MNR and the PIR. PUSR control of both houses of Congress and strong backing by the army general staff are other factors which should permit a coalition cabinet to deal more effectively with the serious problems raised by the deepening economic depression, labor unrest, and continued MNR-PIR agitation and plotting.

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Weekly Contributions, B/LA
(CIA Working Paper)
Article 12-49

19 July 1949

Current Economic Difficulties in Uruguay

Uruguay faces a difficult economic situation because of changing world conditions and also because of internal political factors which make it politically impossible for the administration to adopt effective means to meet its problems. Uruguay's difficulties are of interest to the US not only because of possible impairment of the economic soundness of a country within the US sphere of influence and because of concomitant injury to the historically cordial relations between Uruguay and the US, but also because these conditions which affect Uruguay also exist in other Latin American countries and may lead to similar measures.

Uruguay's dependence on raw-material exports, similar to that of most Latin American countries, has not changed, but conditions for the sale of these products have altered greatly. Prior to World War II, it sold both of its major products -- wool and meat -- to Europe, converting the proceeds into dollars with which to buy from the US. When the war destroyed this triangular trade by wiping out Uruguay's European markets, the US came to the rescue by buying the bulk of the Uruguayan wool clip each year. Uruguay was enabled to continue purchases in the US and at the same time build up a large stock of dollar exchange. After the close of hostilities, cautious spending from this stock, together with continued sales to the US, made it possible for Uruguay to finance increasingly heavy imports from the US. In 1948, however, a sharp decline in Uruguayan dollar exchange holdings resulted as US wool-buying slackened. During early 1949, the virtual loss of the US wool market caused the dollar balance to drop to less than two million, most of which was needed to pay for necessary petroleum imports. In this context, Uruguay's disappointment in the loss of the US Army meat contract (see B/LA Wkly, 12 Jul 49), which would have meant an additional three million dollars of exchange, is easily understandable.

Certain domestic factors have been operating to the detriment of the national economy in the same period. Inflation and deficit spending -- caused by extensive government commitments arising out of subsidies and a large payroll -- have combined since mid-1948 with the unfavorable foreign exchange position to reduce greatly the free market value of the Uruguayan peso. It is possible that the official ratio of pesos to dollars will soon have to be adjusted to reflect the reduced value of the peso. In order to cope effectively with the present and impending situation, the government, much against its desires, will be forced to (1) curtail imports from the dollar area, and at the same time try to stimulate exports to that area;

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(2) reorient its economy toward the sterling area. While it would be to the advantage of the nation's economy for the government to reduce expenditures, control wages, prices and credits, and increase production in fields where a comparative economic advantage is enjoyed, such measures are deemed unlikely to be undertaken seriously in a pre-election year.

The economic situation has already had far-reaching political implications even though the present administration has refrained from implementing the more unpalatable aspects of a sound economic program. The opponents of the Batlle Berres government have blamed it for the country's present economic predicament and their criticism has been so effective that the administration's prospects for success in the 1950 presidential elections have been considerably reduced.

Internationally, the reorientation of Uruguayan economy towards Europe may promote US interest in European recovery, but the severing of economic ties between the US and Uruguay -- which has been a vigorous proponent of US points of view -- may weaken the political ties that have existed between the two countries.

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(CIA Working Paper)
Situation Memorandum 40-49

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The Current Situation in the Netherlands Antilles

(Summary: Current developments have had no important effect on US security interests. The local government, although faced with minor problems of reorganization, is stable and friendly to the US. The postwar boom has levelled off, but the economic outlook remains favorable. Security forces are small but sufficient to maintain internal order. The populace remains loyal to the Dutch Crown and friendly to the US.)

On 17 March the first legislative elections were held under the new Netherlands Antilles interim constitution, whereby 13 times as many voters were qualified as in the preceding election. A limited victory was scored by the allied personal parties of Dr. Moises da Costa Gómez of Curaçao and Henry Eman, Aruba labor leader. Other parties winning seats were the conservative Curaçao Catholic Peoples Party, the anti-Laan Aruba National Union, and the Democratic Party of Curaçao, which favors loosening ties with Holland and possibly political union with Venezuela.

Da Costa Gómez, in coalition with Eman, has formed a cabinet, but the coalition has already shown itself incapable of controlling its slim parliamentary majority and may soon resign. The present impasse, however, should not affect the routine administration of the territory's affairs, which remain in the control of Dutch colonial officials.

There is no indication that the newly elected leaders are unfriendly toward the US. Local Dutch officials, and particularly the new governor (who was Agricultural Attaché to Washington for 10 years) continue to be favorably disposed toward the US. The policy of denying agitators and potentially subversive elements access to the area will continue. There are no known Communists in the territory.

The economic situation remains generally favorable. There are no foreign exchange difficulties, and the Netherlands Antilles can import its requirements freely from any country. Imports of consumer goods are currently at the rate of about \$40 million yearly. Bank deposits and savings are on the increase. The cost of living has declined moderately since its peak in October 1948. Government revenues continue to exceed expenditures by a comfortable margin.

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The all-important oil-refining industry has lowered its production slightly, but employment and wages continue at a high level, and skilled labor, as usual, is at a premium. What few minor labor difficulties have arisen were satisfactorily settled either by government mediation or by the companies themselves in direct negotiation with the company-sponsored employee advisory committees. No serious labor difficulties are likely in the near future.

Under the impetus of Caribbean Commission recommendations, the local government has embarked on a program designed to encourage some diversification in the territory's economy and the improvement of its service facilities. Under this program, the telecommunications system has been renovated and expanded, a large resort hotel has been built on Curaçao, and a thousand low-cost housing units are under construction. The program also calls for (1) increased exports of such primary products as aloes, salt, phosphates, divi-divi, and preserves; (2) the expansion of agriculture, dairying, and handicraft on the northern islands in order to check the outflow of inhabitants to the refineries; (3) the promotion of tourism; and (4) the development of new industries based on the processing of raw and semi-finished materials. B/LA estimates that, even though the program is implemented in its entirety, it will not have an appreciable effect on the island's economy.

The Netherlands' military establishment in the Antilles remains small. There are indications, however, that its strength may be increased when circumstances permit in the homeland and other parts of the kingdom (see B/LA Wkly, 3 May 49). B/LA believes that present forces are adequate to maintain internal law and order under existing conditions and to control small-scale sabotage.

There have been no significant developments in the field of foreign relations. A small minority of local merchants, resentful of their inferior status as "colonials" and fearful of the cessation of crude oil shipments from Venezuela, continue to favor political union with Venezuela, but the influence of this group is small and apparently declining. No change has occurred in the high degree of loyalty of the great mass of the people to the Dutch crown and their generally favorable attitude toward the US.

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Weekly Contributions, B/LA
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Situation Memorandum 41-49

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The Current Situation in Brazil

(Summary: Recent developments have had no important immediate effect on the generally favorable situation with regard to US security interests, though the US-Brazil manganese agreement holds some promise for future favorable effects on critical-materials supply. Inflation and the acute dollar shortage are Brazil's greatest current economic problems. The government continues stable although political maneuvering in connection with the 1950 presidential elections has introduced an element of unrest into the local situation. The armed forces remain loyal to the government, but have reaffirmed their "watchdog" attitude. The Communists, while not threatening the stability of the government, will occupy an increasingly important position as other groups bid for their electoral support. In international affairs, Brazil continues to cooperate closely with the US in spite of an independent stand on the Spanish question and independent ideas as to danger from Argentina.)

Economic

Brazil's economy -- viable over the long term, saving a world-wide depression or a severe set-back in Brazil's principal customer, the US -- currently faces two difficulties for which no immediate solution appears likely -- inflation and dollar shortage. Steps the government has taken to halt inflation have been rendered somewhat ineffective by concessions such as recently permitted wage increases of as much as 40 percent, and the cost of living is at present continuing its rise. The failure to negotiate a loan in the US -- if indeed any such effort has been made -- to pay off the backlog due US exporters (conservatively estimated at between US\$160 million and US\$200 million) leaves that problem still critical. Present conversations looking toward the negotiation of an investment treaty and a convention for the elimination of double taxation would be advantageous to both countries over the long term, but are unlikely to produce effects in the next few months. During the rest of 1949, since the establishment of the tie-up between import licenses and hard-currency exchange has been confirmed, and since a new import-export law now in draft stage will probably carry a clause tying import licensing to hard-currency availability, it will probably be increasingly difficult for US exporters to obtain licenses for anything but the most essential

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items to Brazil's economy. Meanwhile, Brazil will probably make further barter-type trade agreements with other soft-currency nations, as she did with Argentina and Uruguay during recent weeks, in an effort to curtail the flow of dollars from the country. The dollar shortage remains at present largely a government problem, except for the inflationary effects of shortages induced by it; for example, the closing of assembly plants in Brazil by Ford and General Motors because of lack of foreign exchange are unlikely to effect permanent unemployment of their workers, as there remains a shortage of skilled labor in Brazil. The recently concluded US-Brazilian manganese agreement (see B/LA Wkly, 28 Jun 49) has no effect on the current situation in Brazil. If, however, the agreement proves to be workable, it may well result in the US obtaining as much as 300,000 tons of manganese per year after 1952; and should the agreement be found to be a satisfactory compromise between the frequently conflicting demands of Brazilian nationalism and US private enterprise, it may furnish a useful precedent for participation of US capital in the development of other Brazilian mineral resources.

Political

The government continues stable. Political maneuvering in connection with next year's presidential elections has, however, introduced an element of unrest into the current situation. In Brazil's multi-party system, where coalitions are normally the decisive factor in elections, a combination of parties must be expected. The greatest threats to the continuance in power of the present coalition are the personal popularity of ex-President Getulio Vargas, the rising power of Governor Adhemar de Barros of São Paulo, and the possibility that these two clever, demagogic politicians may join forces, perhaps with Communist support. Against this possibility the administration forces will try to form a strong alliance of conservative parties and will probably also make a serious attempt to take both Barros and Vargas out of the race. President Dutra (who may not constitutionally succeed himself) has urged the members of the Inter-Party Pact* — the PSD, the UDN, and the small Republican Party — to unite around a single candidate. "Unification" talks currently being held in Rio among leaders of the three parties seem to hold some promise of success. It has now been proposed that, once preliminary agreement has been reached among these three, other parties be invited to participate. It is likely that

* The Pact was signed in January 1948 with a view to giving the administration an ample working majority in Congress in order to put through urgently needed economic measures. President Dutra's cabinet includes two members of the UDN and one member of the PR, although they are not considered to hold the posts as party representatives.

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the Vargas-Barros threat may not only encourage smaller non-Communist groups to participate with the parties making up the Inter-Party Pact but also oblige the PSD, the UDN, and the Republican Party to continue to collaborate.

Although the elections will not take place until October 1950, the ferment of political activity is such that important electoral alliances may be concluded, and the government's candidate selected, within the next few months, but in any case, the current political maneuvering is unlikely to endanger the constitutional order in Brazil.

Military

The armed forces remain loyal to the government despite the recent revival of the idea that the armed forces have a responsibility for guarding and guiding the political course of the state. The traditional jealous interest of the military in the nation's political life appeared in President Dutra's recent declaration that the armed forces should not "remain indifferent to social, economic, and political events" and said it was "their duty to be alert at a moment of such gravity in the international field and of such lack of understanding at home of fundamental national problems". This statement may well have been an express retort to Dutra's old enemy, General Pessoa, Commander of the Southern Military Zone, whose public declaration that the army must stay out of politics and that any legally elected presidential candidate should automatically be placed in office was enthusiastically received and publicized by the Communists and the adherents of Vargas. It seems highly unlikely that Dutra, a proven adherent of constitutional processes, was advocating military intervention in the elections. But at least he was serving notice on the personalist politicians and the Communists that the army would not abandon its watchdog function. It is estimated that the political role of the armed forces in the electoral year may be more prominent than it has been for the last two years.

Subversive

Brazilian Communists as a group do not at the present time threaten the stability of the government, but may gain importance as the election campaigns get under way. On a national scale they seem to have lost ground, and have tended to become somewhat separated from the sympathizers and the nationalists with whom they customarily surround themselves in their front organizations. No national front has yet been created to replace the "Peace Congresses" which the government was able to suppress

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with no great^{25X1X4} difficulty since the congresses did not find many influential supporters. [REDACTED] an attempt is being made to revive the "Petroleum Defense Campaign".

Despite the Communists' reduced effectiveness, it is estimated that in the coming electoral campaign many parties and candidates will be wooing them for the bloc of votes they can deliver, and that the Communists will turn this situation to their advantage. Although the Superior Electoral Court last month denied registration to the Communist-front party Partido Popular Progressista, a previous decision of the tribunal confirms the right of Communists to participate fully in Brazilian political life as members of legal parties. The earlier decision means that, unless Congress passes legislation to prevent it, Communists can be elected to office on the tickets of other parties as they were in previous elections.

International

In international affairs, Brazil continues to cooperate closely with the US. This close cooperation, however, does not preclude independent action on the part of Brazil when its officials feel that such action is either for the betterment of Brazil or for the world in general. This was evidenced in May when the Brazilian delegate to the UN, even though he had knowledge beforehand that the US would abstain from voting, sponsored a resolution permitting the UN members again to send chiefs of missions to Spain. The personal cordiality with which President Dutra was received in the US and with which he responded has undoubtedly served to add a much-needed note of warmth to US-Brazilian relations. Officially Brazil maintains friendly relations with all her neighbors, but Argentina continues to be a source of apprehension in government circles, particularly among officials of the armed forces. While it is true that the recent statements* of the Brazilian Foreign Minister to members of the US State Department could very well be an expression of a desire to obtain a bargaining point for US assistance, there is still a genuine fear of Argentina among many Brazilian government and armed-forces officials, and the statement of the Foreign Minister may possibly be a true expression of this fear.

* In a conversation with US State Department officials on 26 May Foreign Minister Fernandes discussed his concern over developments in Argentina and the pressure which that country was exerting on Uruguay and Paraguay. Fernandes then made an exploratory plea to have Brazil given special consideration by the US --- such consideration to take the form of financial assistance.

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